

**GOVERNMENT THAT WORKS!**  
**NEW JERSEY DEPARTMENT OF THE TREASURY**  
**LOCAL GOVERNMENT BUDGET REVIEW**  
**BOROUGH OF KEANSBURG**

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**OCTOBER, 1995**



## **GOVERNMENT THAT WORKS**

### **OPPORTUNITIES FOR CHANGE**

#### ***The Report of the Borough of Keansburg Budget Review Team***

New Jerseyans deserve the best government that their tax dollars can buy. Governor Christie Whitman is committed to making State government leaner, smarter, and more responsive, by bringing a common sense approach to the way government does business. It means taxpayers should get a dollar's worth of service for every dollar they send to government, whether it goes to Trenton, their local town hall or school board.

Government on all levels must stop thinking that more money is the solution to their problems, and start examining how they spend the money they have now. The State's taxpayers cannot afford to keep sending money to their government. It is time for government to do something different.

There is no doubt that local government costs -- and the property taxes that pay for them-- have been rising steadily over the last decade. Until now, the State has never worked with towns to examine what is behind those rising costs. That is why the Local Government Budget Review Program was created by Governor Whitman and State Treasurer Brian W. Clymer. Its mission is simple: to help local governments find savings, without compromising the delivery of services to the public.

The Local Government Budget Review Program fulfills a promise Governor Whitman made in her first budget address, when she offered the State's help to local governments looking to cut costs. This innovative approach combines the expertise of professionals from the Departments of Treasury, Community Affairs and Education, with team leaders who are experienced local government managers. In effect, it gives local governments a management review and consulting service provided to them at no cost by the state.

To find those "cost drivers" in local government, the teams will review all aspects of the local government operation, looking for ways to improve efficiency and reduce costs. The teams will also document those State regulations or legislative mandates which place an unnecessary burden on local governments, and suggest which ones should be modified or eliminated. Finally, the teams will note where local governments are utilizing "Best Practices" -- innovative ideas that deserve recognition and that other municipalities may want to emulate.

This intensive review and dialogue between local officials and the review team is designed to produce significant insight into what factors are driving the costs of local governments, and provide the necessary tools to bring meaningful property tax relief to the State.

**LOCAL GOVERNMENT BUDGET REVIEW  
EXECUTIVE SUMMARY  
BOROUGH OF KEANSBURG**

**A. THE BEST PRACTICES OF KEANSBURG**

The review team identified the procedures used in the collection of delinquent payments due to the Municipal Court; the reduced welfare caseload resulting from thorough local investigations; the use of uniformed foot patrols as well as special police, and the cooperative construction permit and inspection procedures to be best practices worthy of special mention.

**B. BUDGETING, FINANCIAL MANAGEMENT AND BANKING**

Fifteen recommendations identified the opportunity to reduce the cost of government or enhance non-tax revenues by approximately \$513,684. Specific recommendations address reductions in the eligibility and cost of benefits, improvements in investment income and revisions in budgeting procedures leading to better use of available funds as well as a reduction in the reserve for uncollected taxes.

**C. STAFFING, PRODUCTIVITY AND BENEFITS**

Adjustments in staffing levels, elimination of a sick leave “buy back” program and revision to vacation schedules would result in an additional \$224,000 reduction in the cost of government.

**D. TAX COLLECTIONS, FORECLOSURES AND THE TAX BASE**

The magnitude and impact of delinquent tax collections is discussed. Recommendations are offered to further improve the current and delinquent tax collection rates, address the backlog of pending foreclosures and improve the tax base. Given the improving effort by the staff to address the tax collection problems, no summary dollar value has been assigned.

**E. MUNICIPAL OPERATIONS**

Specific recommendations are made regarding delivery of ambulance services, capital expenditures for ambulances, the current inter-local agreement for health services, personnel assignments and staffing. In addition, a recommendation for the consolidation of the KMUA is presented.

**F. PROPOSED REGULATORY AND STATUTORY CHANGES**

Recommendations are made to permit the funding of accrued liabilities through a dedicated reserve, revise eligibility standards for seasonal municipal employees having a promise of continued employment, permit consolidation of the municipal planning and zoning boards, and provide support for the consolidation of municipal agencies.

**COMPARISON OF BUDGET APPROPRIATIONS, STATE AID AND THE  
LOCAL TAX RATE WITH RECOMMENDED REDUCTIONS IN THE  
BOROUGH OF KEANSBURG COST OF GOVERNMENT**

**A. BUDGETING, FINANCIAL MANAGEMENT AND BANKING**

Cancel redundant life insurance policy	\$ 11,900
Delete Council benefits	16,600
Modify insurance plans	18,650
Cancel unused appropriations	188,000
Adjust "Other Expense" budgets	102,000
Adjust Anticipated Tax Collection Rate	68,000
Additional Interest Income	30,000
Adjust PATF I	55,300
Restore PILOT	3,400
Additional Parking Meter Revenue	19,100
Eliminate Mercantile Licenses	<8,500>
Adjust Other License Fees	1,900
Adjust ABC License Fees	<u>7,334</u>
<b>TOTAL</b>	<b>\$513,684</b>

**B. STAFFING, PRODUCTIVITY AND BENEFITS**

Eliminate Sick Leave buy back	60,000
Reduce Police vacation	52,000
Fund Accrued Liability	<38,000>
Implement staffing adjustments	
Office of the Tax Collector	25,000
Office of the Municipal Clerk	25,000
Municipal Court	20,000
Police Dispatching	45,000
Finance Office	<u>35,000</u>
<b>TOTAL</b>	<b>\$224,000</b>

**TOTAL OPERATING BUDGET SAVINGS      \$737,684**

Total amount raised for Municipal Tax (1994-1995)	3,801,473
<b>Savings as a % of Municipal Tax</b>	<b>19.4%</b>

Total Budget (1994-1995)	8,820,234
<b>Savings as a % of Budget</b>	<b>8.36%</b>

Total State Aid (unrestricted 1994-1995)	1,107,301
<b>Savings as a % of State Aid</b>	<b>66.62%</b>

## INTRODUCTION

The review and analysis conducted on behalf of the governing body of the Borough of Keansburg was one of three projects undertaken in the community. The Keansburg School Board and the Commissioners of the Keansburg Municipal Utilities Authority (KMUA) also invited the local government budget review staff to complete an analysis on their behalf. As such, Keansburg is the first community in the state to have requested and received a review of all the primary local government agencies. The local housing authority and the regional sewerage authority were not included in the review process, although key components of the relationship between the Bayshore Regional Sewerage Authority and the KMUA are highlighted in the report submitted to the Authority.

As a result of the three reviews, the elected and appointed leaders as well as every public employee and interested citizen have the opportunity to work cooperatively to implement changes that will benefit to each agency as well as every ratepayer and taxpayer. Like many other communities in New Jersey, Keansburg cannot rely on new development or significant commercial growth to carry the growing cost of government. Indeed, the future revitalization of the community is directly dependent on the ability of the local governing bodies to improve services while reducing the cost of government.

Based upon the assessment of the review team, "business as usual" is not appropriate for Keansburg. It is clear the Borough Manager and staff have initiated a number of improvements and have built the foundation for several more that may help Keansburg limit the growth in the municipal tax rate over the next few years. However, even the best management of the existing structure and system will not be enough to achieve long term stability in the tax rate or significant reductions in the cost of government. The record of delinquent taxes, the lagging (but improving) tax collection rate, the transient nature of the population, the size of the school population, and the condition of the housing stock are indicators that major change is necessary if Keansburg is to return to its once vibrant past.

A strong argument can be made that without significant reduction in the cost of local government the chances for renewed commercial activity, revitalization of the housing stock and restoration of the tourist businesses will be difficult. Rebuilding the governmental structure will enhance the chances for success in rebuilding the local economy, and rekindling the local sense of pride. Outlined in this report are recommendations for addressing improvements in the existing structure and process of the government of the Borough of Keansburg.

The review process consisted of three primary components -- observation of the work procedures; interviews and discussion with elected officials, executive staff and junior employees; and analysis of reports, documents and records including the Borough's collective bargaining agreements, financial statements, and insurance contracts. The on-site observation work occurred at intermittent periods. This component of the process overlapped with the utility authority and school district reviews.

The divisive nature of the current municipal governing body makes it difficult to ascertain the potential for acceptance of the recommendations contained in this report. During the interviews, some officials attempted to limit discussion on certain topics and/or obtain a commitment from the review team to concentrate on a limited number of issues. In addition, it did not appear that all members of the governing body understood their form of government or the duties and responsibility of the staff and council members. There appeared to be little consensus or cooperation on matters of structure and organization or staff-council relationships and communication.

Perhaps most importantly, there was no agreement on the need to establish a course of action for the future of Keansburg. Simply put, it was difficult to determine whether the short and long term interests of the community and its taxpayers were consistently considered by all members of the governing body. It was also difficult to determine whether positions taken by individual elected officials were the result of legitimate differences in opinion on policies or driven by personality. Without a significant change in the working relationships and dynamics of the governing body, the opportunities to pursue implementation of the recommendations contained in this report on behalf of the taxpayers are limited at best. Accordingly, **it is recommended that (#1) the Council obtain assistance in resolving matters of protocol and procedures and for the purpose of developing short and long term goal statements.** The Council must recognize its obligation to serve the community and develop a process for resolving their personal differences.

In general, the review team found the staff to be quite cooperative although somewhat perplexed as to why there should be any consideration of changes in their work routines or reporting relationships. Yet when asked, the staff uniformly agreed that there is routine public disagreement and tension in the community over many issues, which needs to be resolved. When asked if they would support constructive change in the interest of helping to reduce some of this tension the overall response was positive, although concerns regarding job security were clearly expressed.

Where possible, the potential fiscal impact of a proposed recommendation is provided in the report. Not all of these “fiscal impact statements” have a direct impact on the budget or the tax rate. The primary purpose of providing this measure is to give the governing body an indication of the magnitude or scope of an issue. We do not suggest all of the proposed changes can be made at once, or even in a single year. When considered together the recommendations identify ample opportunity for constructive change and they provide an excellent working paper for discussion. Observations and recommendations are presented in the following categories.

- Budgeting, fiscal management and banking
- Staffing, productivity, salaries and benefits
- Tax collections, foreclosures and the tax base
- Municipal operations

### Inter-agency relationships

A summary of the best practices found within the government of the Borough of Keansburg are also presented. It is important not to lose sight of the positive efforts being made in addition to the suggestions for change contained in this report.

The report concludes with a summary of the recommendations being made for change in state regulations and procedures that are intended to reduce the cost of government and enhance the chance for success in every community in New Jersey. These recommendations are being made as a result of the review conducted in the Borough of Keansburg.

## **THE BEST PRACTICES OF THE BOROUGH OF KEANSBURG**

During the course of every review, each local government budget review team identifies procedures and practices which are noteworthy and deserving of recognition. Best practices are presented to speed their replication in communities throughout New Jersey. By implementing these best practices, municipalities and school districts can benefit from the local budget review process and save considerable expense on their own.

### **Collection Of Delinquent Payments Owed To The Municipal Court**

The rules and regulations of the municipal court process dictate that the presiding judge must grant requests to make scheduled partial payments for fines and fees if offenders meet certain criteria. Timely management and collection of partial payments has been found to be a problem in many municipalities.

In Keansburg the efforts of the Municipal Court to collect delinquent payments are supported the Police Department. One or more officers are assigned to contact individuals who have fallen behind in their schedule of payments. The cooperative effort to manage and control the partial payment program has kept it from becoming a much bigger and more difficult matter.

### **Investigation of Welfare Eligibility**

The caseload managed by the welfare staff of the Borough of Keansburg has dropped significantly over the last three years. This is particularly noteworthy given the increasingly transient nature of the population. The trend found in Keansburg is different from that of most communities in the region and the state. The reduction in the number of cases, and the resulting reduction in the general assistance expense is attributable to the persistent and detailed work of the welfare staff to verify initial eligibility and to reverify continued eligibility of the aid recipients. In addition, there is extensive follow up and oversight of the work assignments given to aid recipients.

The money saved through the efforts of the staff do not appear in the budget of the Borough of Keansburg. General assistance funds are provided by the State to all municipalities through a special reimbursement program. Given the success of the local investigative work, it is recommended consideration be given to opening discussions with other bayshore communities regarding the opportunity for shared services and inter-local agreements addressing the management and investigation of welfare caseloads.

### **The Use of Foot Patrols and Special Police Officers**

Business persons and residents made it a point to tell members of the local budget review team that the Keansburg Police Department makes use of uniformed foot patrols. During their interviews the senior officers of the Department stated their belief that officers must be "out in the community" if the department is going to maintain a good understanding of



the issues and concerns of the people they serve. In addition to improving the flow of information to the department and the response time to certain calls, the public relations and communications functions of the department are enhanced significantly by the foot patrols.

The Department has also used special police officers on occasion. Care has been taken to ensure the assignments given to these officers do not supplant the work and assignments of the regular police officers. Instead, the use of these officers recognizes that law enforcement and public safety staffing requirements can be met in a variety of cost effective ways.

### **Cooperative Construction Permit and Inspection Procedures**

In 1993 the Borough of Keansburg and Middletown Township entered into an inter-local agreement for the provision of construction code services. In a small community where the volume of new construction is low, the cost of retaining staff for the purpose of completing construction, plumbing and electrical code inspections or even the cost of contracting these services can be burdensome. Under the current arrangement, permit applications can be submitted in Keansburg; the Borough collects and retains a portion of the permit fee and the inspections are scheduled through Middletown Township. Middletown is paid a fixed amount per type of inspection from the balance of the permit application fees.

In areas where there is a larger municipality, such as Middletown, that can serve as a regionalized anchor or hub for specialized services, smaller municipalities can take advantage of cost effective services through inter-local agreements without relinquishing total control or responsibility for delivery of the service to their residents.

## BUDGETING, FINANCIAL MANAGEMENT AND BANKING

Over the five year period from fiscal year 1989 through fiscal year 1994 (excluding the six month fiscal year transition period) the operating budget of the Borough of Keansburg increased approximately 49 percent. The major contributors or "cost drivers" to this increase were:

<u>COST DRIVER</u>	<u>CY 1989 EXPENSE</u>	<u>FY 1994 EXPENSE</u>	<u>OVERALL INCREASE</u>
Insurance Plan Benefits	385,471	796,000	107%
Annual Debt Service Payments	435,103	842,960	93%
Reserve for Uncollected Taxes	796,378	1,419,312	78%
Deferred Charges	76,202	132,380	73%
Police Salary & Wages	1,067,772	1,658,108	55%
Statutory Employee Benefits	405,683	594,262	46%

**Insurance Benefits.** The increase in the cost of health benefits and other insurance benefits is attributable to changes in annual premium costs and growth in the number of individuals covered by the plans. The life insurance premium, which is directly tied to wages earned, is in addition to the life insurance coverage provided by the PERS and PFRS pension systems. To the extent that a basic life insurance policy is already provided, the coverage purchased by the Borough can be considered to be either redundant or excessive. It is **recommended (# 2) that this policy be canceled at the earliest possible date or that employees pay 100 percent of the cost through payroll deductions.** The annual savings would be approximately \$11,900.

The borough provides health insurance to the families or dependents of approximately 49 employees, 3 elected officials and 4 retirees. The most expensive of these is the family indemnity plan while the least expensive is the dependent HMO coverage.

<u>TYPE OF COVERAGE</u>	<u>PREMIUM</u>
Family - indemnity	\$5,028
Family - HMO	4,656
Dependent - indemnity	3,576
Dependent - HMO	3,336
Single - indemnity	2,844
Single - HMO	2,688

28 of the 49 employees identified above have selected full family coverage. This subset is split evenly between the indemnity plan and the HMO. The additional cost to the Borough to cover the family members is approximately \$58,125. The additional cost for the remaining 21 employees taking advantage of the dependent coverage is approximately

\$14,500. Given the increasing costs of health insurance **it is recommended that (# 3) that the Borough pursue the following:**

**A. Eliminate health insurance and other benefits for all elected officials.** To ensure a smooth transition, any council member currently covered by one or more of the insurance benefits could remain enrolled until the end of their service by reimbursing the Borough for 100% of the premium expense. The annual savings for the taxpayer would be approximately \$16,600.

**B. Require employees to pay the difference in cost between the insurance coverage of their choice and the cost of “HMO-Family” coverage.** This should discourage employees from selecting a level of coverage that is truly not needed, while allowing them to purchase the coverage of their choice at a very reasonable price. For example, an employee choosing to keep the family indemnity plan would contribute approximately \$40 per month, or, they could choose to move to the HMO-Family plan at no cost. The total anticipated savings to the Borough would be approximately \$11,650 per year.

**C. Pursue the same strategy regarding the payment of premiums for dental insurance, the prescription plan and the vision plan.** Again, if half of the group dropped the level of coverage and half choose to pay the difference on the premium the annual reduction in the Borough’s expense would be approximately \$7,000.

**Annual Debt Service.** The tremendous increase in debt service from \$435,103 to \$842,960 is driven by the Borough’s change from a calendar year to a fiscal year in 1991. In effect, all of the operating costs of the Borough for a six month transition period were incorporated into a 20 year bond called a “fiscal year adjustment bonds” or “FYAB.” In 1994 approximately 8.7% of the municipal tax rate was spent for the annual payment of principal and interest on this FYAB debt. The Borough should explore alternatives to accelerate the elimination of this debt. A second factor contributing to the annual debt load was the decision to purchase vehicles through the Monmouth County Improvement Authority. Given sound management techniques and good budgeting practices there should be no reason to spread the cost of these operational expenses through additional debt. Accordingly, **it is recommended (# 3) the Borough stop using debt options to pay for expenses normally required to be paid for through the operating budget.**

**Reserve For Uncollected Taxes.** The increase in the reserve for uncollected taxes is a direct result of the low tax collection rates and the increase in the tax rates of the school district, the county and the municipality. This important issue is addressed in the “Tax Collections, Foreclosures and Tax Base” section of the report.

**Deferred Charges.** The five year period covered by this review coincided with a scheduled five year payout in accordance with NJSA 40A:4-55 for the last revaluation (\$141,900) and the codification of ordinances (\$20,000). One fifth of this expense has been budgeted in each of the last five years at a cost of \$32,380 per year. During fiscal

year 1993, a \$100,000 emergency appropriation was authorized by the governing body. In accordance with state statutes, this appropriation was offset by a budget allocation in 1994 of \$100,000 thereby generating a total expense of \$132,380 in 1994. Barring unforeseen emergency appropriations, deferred charges should not continue to be a cost driver in Keansburg.

**Police Salary & Wages.** Over the last five years police salaries and wages have increased 55 percent compared to a 40 percent increase in other municipal salaries. During the five year period studied by the review team the size of the department was increased from 27 to 30 officers. Four patrol officer positions were added and the number of command positions was reduced by one. This increase in staffing clearly affected the rate of growth in the police salaries and wages account.

The appropriate staffing level in a police department is often a complex and volatile issue. The review team compared the number of officers in Keansburg to non-rural municipalities in New Jersey having a 1994 “crime index total”, between 400 and 499; an official population between 10,000 and 14,999, **or** a total square area between .7 and 1.3 square miles. There were 132 municipalities that fit at least one of these criteria. From this “universe” of 132 municipalities three subsets were developed for the purpose of comparison. They were:

SUBSET # 1: The eleven municipalities with a crime index total between 400 - 499 **and** a population between 10,000 - 14,999 (Cedar Grove, Cinnaminson, Franklin, Keansburg, Little Egg Harbor, North Arlington, Saddle Brook, Somers Point, Springfield, Tinton Falls, and Totowa.)

SUBSET # 2: The fourteen coastal municipalities (Belmar, Bradley Beach, Brigantine City, Deal, Keansburg, Little Egg Harbor, Monmouth Beach, Point Pleasant Beach, Ship Bottom, Somers Point, Spring Lake Borough, Spring Lake Heights, Ventnor City and Wildwood Crest.)

SUBSET # 3: The four coastal communities with a crime index total between 400 - 499. (Keansburg, Little Egg Harbor, Point Pleasant Beach and Somers Point.)

The results of the comparison are summarized in the following table:

<u>GROUP</u>	<u>AVERAGE POPULATION</u>	<u>AVERAGE AREA</u>	<u>AVERAGE CIT(*)</u>	<u>AVERAGE OFFICERS</u>
Total Study	10,980	9.26 sq.mi.	350.31	25.67
Subset # 1	12,707	13.87	436.09	30.00
Subset # 2	6,553	5.21	328.57	21.71
Subset # 3	10,182	14.02	429.75	27.25
<b>KEANSBURG</b>	<b>11,039</b>	<b>1.01</b>	<b>449.00</b>	<b>30.00</b>

(\*) CIT: Crime Index Total

The team eliminated Deal, Spring Lake and Spring Lake Heights from subset #2 because of their residential characteristics and Little Egg Harbor was eliminated from both subsets because of its size (49.5 square miles). The revised averages are as follows:

<u>GROUP</u>	<u>AVERAGE POPULATION</u>	<u>AVERAGE AREA</u>	<u>AVERAGE CIT</u>	<u>AVERAGE OFFICERS</u>
Revised Subset # 2	6,839	1.69	386.8	23.5
Revised Subset # 3	9,132	2.19	422.7	25.7

In subset # 1 which identified the towns having a similar population size and a similar crime index total, the number of officers per town ranges from 25 in Totowa to 43 in Springfield. Five of the eleven towns have 30 officers. This data would suggest the size of the Keansburg Police Department is appropriate.

Revised subsets #2 and #3 are similar to Keansburg in that every municipality is a coastal destination for day visitors or overnight visitors and they are small in size. The permanent residential population in revised subset # 2 is significantly smaller. It is reasonable to presume that in these towns adjustments are made in scheduling, etc., to accommodate seasonal changes in the demand for police services thereby permitting a smaller permanent staff. The staff of the communities in revised subset # 3 are 22 (Point Pleasant Beach) and 25 (Somers Point). Somers Point may provide the best individual comparison overall. It is a coastal community with a population of 11,216; a crime index total of 401 and 4.08 square miles inside the municipal boundary. Based upon a review of this data it appears

reasonable to suggest the number of officers in the Keansburg Police Department could be reduced by one or possibly two officers.

Given that the average total compensation, including all benefits, of a Keansburg police officer is approximately \$70,644 per year or the equivalent of two cents per \$100 valuation in the municipal tax rate, the need to ensure optimal staffing cannot be understated. Accordingly, **it is recommended (# 4) that the Borough obtain a detailed review of the staffing needs of the police department** given the changing nature of the town, the revitalization of the beach area and the need to minimize long term governmental expenses to the fullest extent possible. If it was found that one position could be eliminated, through attrition, the annual savings would be approximately \$70,644.

**Statutory (Pension) Benefits.** The increase in statutory or pension benefits is directly related to the increase in wages. In addition to the 55% increase in police salaries and wages, other salaries and wages increased by approximately 40% over the five year period. A combination of growth in staffing and adjustments in compensation contributed to this increase. During the five year period studied, the New Jersey Division of Pensions and Benefits made changes in their operating policies and procedures that reduced the pension cost per employee in an effort to relieve some of the pressure on budget cap restrictions and on local taxpayers.

**Additional Opportunities.** In addition to reviewing the identified cost drivers the review team analyzed budget documents, audits, purchase and bid documents and bank statements to identify ways to reduce the cost of government or increase the value of the governmental expense on behalf of the taxpayers. Outlined below are recommendations pertaining to the use of appropriation reserves, the anticipated collection rate, other expense appropriations, “off budget” expenses and banking contracts.

#### The Use and Management of Appropriation Reserves

The budgeting and financial management system used by municipalities in New Jersey automatically sets aside or reserves unspent budget allocations at the end of the fiscal year unless a governing body adopts a resolution canceling the appropriations. These “carry over” accounts are called appropriation reserves. The only legal use of these reserve accounts is to pay expenses incurred during the previous fiscal year. Common examples include utility bills or scheduled payments made on a quarterly or monthly basis. At the end of the “reserve year” the unspent reserve allocations automatically lapse to the surplus balance.

It does not appear that the Borough of Keansburg has adopted a resolution canceling unspent allocations in any of the last five years. The unspent reserve appropriations that lapsed in fiscal year 1992 totaled \$146,899; in 1993 the lapsed appropriation was \$197,427 and in 1994 it totaled \$240,167. The balances in the 1995 appropriation reserve

accounts indicate that over \$235,000 will lapse this year. Accordingly, **it is recommended (# 5) the governing body solicit a recommendation every year from the Manager on the unused appropriations in the current year budget that can be canceled and then adopt a resolution implementing this recommendation.** Given their limited use it is possible to make accurate projections on the amount of money needed to pay the remaining bills.

If 80% of the anticipated 1995 lapsed appropriation reserves had been canceled rather laying dormant for a year. Approximately, \$188,000 could have been returned to the surplus balance sooner. This would give the Council the opportunity to keep this money in the surplus balance for the purpose of long term fiscal stability or reduce the municipal tax rate by approximately \$.05 per \$100 valuation.

The four-year growth pattern in the appropriation reserves should give the staff and the Council the confidence needed to be much more aggressive in reducing budget allocations. The rate of growth in the lapsed appropriation reserves is approximately twice the rate of growth in the annual budget. The sum of all "other expense" budget lines in the 1994-1995 budget was approximately \$2,052,100. A 5% reduction in this total would reduce the pressure on the tax rate by approximately \$.03 per \$100 valuation. Given the size of the lapsed appropriation reserve accounts, which equal approximately 10% of the total amount allocated for "other expenses," it is reasonable to suggest a 5% reduction is readily achievable. Caution should be taken to protect against overly aggressive reductions in the budget that will lead to over expenditures in the future.

Any effort to reduce operating expenditures is sure to be met with some uncertainty on the part of the department heads responsible for delivering services to the public. Accordingly, **it is recommended (# 6) the "contingent" budget line be used in lieu of placing excessive amounts of money in the departmental operating lines or dedicated lines of the budget.** By doing this the Manager and the Council will have an excellent mechanism for review and control of the changes in expenditures because each request for a budget transfer must be presented and approved by the governing body. At the end of the fiscal year all money remaining in the contingency line can be automatically included in the resolution canceling unused appropriations.

#### Actual versus Anticipated Tax Collection Rate

Over the last five years the collection rate on local property taxes has been 7% to 11% below the state average. This problem has not gone unnoticed by the staff and management of the Borough. Progress has been made in improving the current year collection rate as well as the collection of delinquent taxes.

The 1990 budget projected a tax collection rate of 90% yet the actual collection rate turned out to be approximately 87.8%. As a result, the tax revenue estimates were over stated. This forced the Borough to increase the reserve for uncollected taxes in the following year. The experience of 1990 and other similar years has forced the Manager

and governing body to develop annual tax revenue estimates that are exceptionally conservative to insure the financial stability of the community. For example the 1993-1994 budget projected an annual collection rate of 84.43% which turned out to be approximately 3.4 points lower than the actual collection rate.

Now that Keansburg is aggressively addressing the issue of current year tax collections as well as the collection of delinquent taxes, **it is recommended that (# 7) the governing body set the anticipated collection rate closer to the actual collection rate of the prior fiscal year.** Just as Keansburg suffered through the compounding effects of a downward spiral in tax collection rates, it must now take maximum advantage of the upward spiral as improvements are being made. It could be argued that by maximizing the anticipated collection rate and thereby reducing the reserve for uncollected taxes, which in turn reduces the pressure on the tax rate, Keansburg's opportunity for improved tax collection rates will be even greater. Given Keansburg's recent history, a one percent adjustment in the anticipated collection rate could lead to a reduction in the reserve for uncollected taxes that is equivalent to at least two cents on the tax rate or approximately \$68,000.

Raising the anticipated collection rate to a level where it more closely matches the actual collection rate eliminates a municipality's primary mechanism for strengthening its surplus. Long term financial stability and long term stability in tax rates cannot be overlooked in the interest of short term, temporary tax relief. However, implementation of other recommendations contained in this report will provide the Borough with several opportunities to maintain, if not strengthen its surplus balance.

#### The Building & Grounds "Other Expense" Appropriation

The budget review team noted the "other expense" budget line in the Building and Grounds section of the Department of Engineering and Public Works budget appears to serve as a catch all for a variety of expenses of unrelated expenses. The 1994-1995 allocation was \$225,000. Items charged to this line included, among other things, utility bills for various sites, contracts for maintenance and repair of office equipment and the purchase of bottled water.

Given the need to properly identify the true operating cost of the major service delivery departments, **it is recommended that (# 8) expenses directly associated with a department be charged to the "other expense" budget line of that department.** There will always be a small number of contracts or purchases that cannot be readily associated with a particular department. It would be preferable to group these expenses in an "oversight" department such as the Office of the Manager. The proposed change will not directly result in a reduction in the cost of government. However, proper allocation of costs tends to improve the ability to effectively monitor and control expenditures as well as evaluate the costs of operating a particular department.



## The Control and Management of “Off Budget” Funds and Expenses

In addition to managing and controlling the annual operating appropriations outlined in the budget, the Manager and Finance Officer must ensure that a number of dedicated “off budget” funds and accounts are properly controlled. These “off budget” accounts include the developer escrow account, the capital ordinance accounts and the unemployment trust fund. In Keansburg, the attention given to these special accounts met or exceeded the work done in most other municipalities reviewed by the local budget review program. Nevertheless, the following recommendations are made to further strengthen and improve their management.

**Unemployment Trust Fund.** Each year the Borough hires school crossing guards for the seasonal responsibility of assisting children as they walk to school. During the summer months, crossing guards pursue unemployment as an alternative form of compensation even though some have been given the opportunity to fill a different seasonal position collecting meter revenues. **It is recommended (# 9) that the Borough oppose the awarding of unemployment compensation to any seasonal employee,** particularly if the employee’s compensation will resume at the beginning of the next season or that seasonal employee has had the opportunity to earn additional income in a different position.

Notwithstanding interest income and contributions the Unemployment Trust Fund balance has dropped from \$62,145.71 on January 1, 1989 to \$39,523.88 as of June 30, 1994. Continual decline in the unemployment trust fund balance may leave the governing body no choice but to make an emergency appropriation or amend the budget thereby increasing the overall tax burden. It is also in the best interest of the Borough employees and the community to insure the payroll deductions for unemployment insurance do not increase due to the inappropriate payments to seasonal employees.

**Developer Escrow Accounts.** The Borough maintains an excellent accounting system for a series of developer escrow (sub)accounts through the services provided by one of its banking institutions. As such, the challenge of properly assigning costs, determining account balances and allocating interest income is made much easier. **It is recommended (# 10) that the Borough move as aggressively as possible to transfer interest income on a regular basis from the escrow account(s) to the Borough’s general account.** This process will not yield a significant increase in income; however, it will contribute to the cash flow in the general account and is a prudent fiscal practice.

## The Control and Management of Banking Relationships and Bank Accounts

The Borough of Keansburg maintains approximately thirteen primary bank accounts. During fiscal year 1994 the average daily balance in these accounts ranged from \$25,149 to \$775,145. The interest rates ranged from zero (on six accounts) to 2.63% on the Unemployment Trust Fund account. Three of the zero interest accounts were the “Clearing Fund,” the “Payroll Account” and the “Payroll Agency Account.” Based on the

average interest earned on moneys placed in the New Jersey Cash Management Fund the potential interest income on these three accounts was approximately \$10,500. Part of the rationale given for a zero interest account was that the bank pays the cost of the payroll services on behalf of the Borough in lieu of interest. Although not necessarily a prudent business practice, “compensating balance” arrangements are common among municipalities.

Although the staff attempted to provide assistance, the review team was not able to identify the total amount paid by the bank for payroll services nor was the team able to make an assessment of the cost or benefit of the compensating balance relationship. There are no written contracts or agreements between the bank and the Borough specifying the costs of services or interest rates. Again, this has been found to be common among municipalities. It is unlikely the costs paid by the bank for the basic payroll services are in excess of the interest income that would have been earned by the Borough on the payroll accounts. It is unlikely this relationship is in the best interest of the taxpayers, particularly given rising interest rates and the highly competitive nature of municipal banking services.

During fiscal year 1993-1994, the Borough earned approximately \$27,461 in interest on its bank accounts. Had all of these accounts been earning interest at rates comparable to the New Jersey Cash Management Fund, the Borough could have earned a total of \$63,161 or an additional \$35,700. If credit is given for the compensating balance arrangement on the payroll accounts it is still reasonable to suggest the Borough can increase its interest income by approximately \$30,000.

Accordingly, **it is recommended (# 11) the Borough aggressively pursue the following:**

**A. Consolidate bank accounts.** The ability to maintain sub account ledgers no longer makes it necessary to maintain a multitude of separate bank accounts. A reduction in the number of accounts should reduce the cost of banking and it should make it attractive to establish a daily sweep account thereby further enhancing the potential for interest income.

**B. The Borough should eliminate the balance resulting from welfare reimbursements in the “Public Assistance Trust Fund I” (PATF I) account.** This account existed for the purpose of receiving reimbursements from the State for welfare payments made by the Borough. When the State amended the welfare payment process several years ago the “Public Assistance Trust Fund II” (PATF II) account was opened. Delayed reimbursements resulting from the old welfare payment system were placed in PATF I. These reimbursements may belong to the Borough . Today it is common to find the old PATF I account being used for other appropriate purposes. The FY 94 audit shows a November 30, 1994 balance in the PATF Fund of approximately \$57,250. Subaccount #1 had a balance of approximately \$55,300. If this subaccount balance reflects the total of past reimbursements then the municipal surplus can be increased by that amount. Keansburg should apply to the New Jersey Department of Human Services

for permission to close this account thereby making the municipal share available as surplus.

**C. Establish written agreements outlining in detail the cost of banking services, interest rates and payments to third parties.** Just as the Borough has contracts for its other services, such as insurance, it should have approved contracts for its banking relationships. Given the highly competitive nature of municipal banking services, it could be in the best interest of the taxpayers to consider eliminating compensating balance accounts and paying the cost of the payroll service directly.

**D. Competitively solicit banking services in the future so as to maximize the potential interest income.** Given the changes in the banking industry and the changes in state statutes regarding inter and intra state banking there is simply no reason for Keansburg not to take advantage of the opportunity to increase its non tax revenue.

**E. Establish a contract for the investment of idle funds with the New Jersey Cash Management Fund** operated on behalf of the state and local agencies by the New Jersey Department of the Treasury. The public's funds are secure, the funds are readily available when needed and interest rates have been higher than those currently being paid to the Borough. This fund should be considered as an additional tool in the Borough's efforts to improve interest income.

#### Additional Non Tax Revenues

**Payment in Lieu of Taxes.** The Borough receives an annual "payment in lieu of taxes" (PILOT) from the Keansburg Housing Authority. In 1990 the Borough received approximately \$11,800. During fiscal year 1994 the Borough received approximately \$8,400. Even though the cost of government has increased the payment in lieu of taxes has decreased. Although requested, neither the municipality or the housing authority would provide a copy of the PILOT agreement to the review team. Accordingly, it was not possible to determine why the payments were decreasing or whether payments were being made properly. Accordingly, **it is recommended (# 12) that the Borough ask the municipal attorney to review the existing PILOT to insure the annual payment equals or exceeds the cost of municipal services being provided.** If the PILOT is not covering the direct and indirect cost of services, the Borough may have an opportunity to renegotiate the terms of the annual payment.

**Parking Meters.** The parking meter revenue collected in fiscal year 1989 was approximately 25% higher than the parking meter revenues collected in fiscal year 93-94. It is clear the Borough is working to address this matter as part of its overall plan to revitalize the waterfront. The special allocation in the state budget to accomplish this task will help immeasurably. It is quite possible the Borough can return to the 1989 collection rate, if not exceed it. A 10% increase over the 1989 parking meter revenues will generate approximately \$68,580 which is approximately \$19,100 over the actual collections for fiscal year 1993-1994. Accordingly, it is recommended that **(# 13) the governing body**

**and staff move aggressively to purchase and install new parking meters and review the related ordinances related to enforcement of parking regulations.**

**Local Licenses.** The ordinances of the Borough of Keansburg authorize over fifty different types of licenses. The 1994 audit (pages 11 and 13) consolidated these into the following categories: Alcoholic Beverage, Amusement Machine, Bingo, Hack, "M.G.," Mercantile, Music Machine, Miscellaneous, Peddler, Raffle, Vending Machine, Livery, Marriage and Health License. A local license fee may only be charged if a service is being provided. If the only service being rendered is the issuance of the license itself, then its purpose must be questioned. Accordingly, **it is recommended (# 14) the Borough Council adopt the necessary amendment(s) to the municipal ordinances to eliminate questionable or unnecessary licenses.** If the mercantile license category was eliminated the Borough would lose approximately \$8,500 per year. The adverse impact on the annual revenue will be marginal if the elimination of the licenses helps to encourage existing businesses to expand or new businesses to locate in the community.

Licenses for hawkers and peddlers and for seasonal or year-round operations where health or safety are a matter of public concern are vital in every community. Their importance is magnified in a waterfront town working hard to reestablish itself as an attractive tourism destination and recreation site. It is equally important the Borough recover all of the costs associated with issuing these licenses and conducting the related surveys or inspections. Accordingly, **it is recommended (# 15) the Borough modify the fee structure for the licenses it chooses to retain to insure full cost recovery.** The 1994 audit listed \$1,640 as the total for all amusement machine licenses and \$2,325 for peddler licenses. The fees for rides range from \$20 to \$200, while the fees for arcade games and amusements range from \$20 to \$350. The revitalization of the waterfront may generate additional requests for amusement licenses which in turn will generate additional work in the Office of the Clerk and the Police Department. This further emphasizes the need for the Borough to recover all of its costs. If the anticipated growth in amusement licenses occurs, the revenue generated by increased fees would earn an additional \$1,980.

**Alcohol Beverage Licenses.** In 1989 the 32 licenses generated \$21,356 in alcoholic beverage license fees. By the 1993-1994 fiscal year the number of licenses dropped to 25 and the amount collected had dropped to \$16,896. While the decrease is due to a reduction in the number of licenses, it is important to note the fee schedule has not been adjusted for several years. The plenary retail and distribution licenses are \$720 per year while the club license is \$72. All of the fees are less than half of the maximum permitted by the State. These fees are among the lowest in the region. Given the extended length of time since the last fee adjustment, **it is recommended (# 16) that the ABC license fees be adjusted up to the statutory maximum amount of 20% per year for at least two consecutive years.** A 20% increase in two consecutive years would generate approximately \$3,380 in the first year and \$4,055 in the second year for a total of \$7,335.

## **POTENTIAL FISCAL IMPACT**

Cancel redundant life insurance policy	\$ 11,900
Delete Council benefits	16,600
Modify Health insurance	11,650
Modify other insurances	7,000
Cancel unused appropriations	188,000
Adjust "Other Expense" budgets	102,000
Adjust Anticipated Tax Collection Rate	68,000
Additional Interest Income	30,000
Adjust PATF I	55,300
Restore PILOT	3,400
Additional Parking Meter Revenue	19,100
Eliminate Mercantile Licenses	<8,500>
Adjust Other License Fees	1,900
Adjust ABC License Fees	<u>7,335</u>
<b>TOTAL</b>	<b>\$526,885</b>

## STAFFING, PRODUCTIVITY AND BENEFITS

### The Cost and Allocation of Benefits

The direct and indirect cost of benefits, which are a major component of the total personnel expense, are not shown as part of the operating budget of any department. Pension costs, social security and insurance premiums are grouped together and listed in their own sections of the budget. In addition, indirect costs such as the use of vacation and sick leave are not shown as a separate cost at all. They are included in the overall salary and wage allocation of a department. In order to provide a more accurate assessment of the cost of the Borough personnel, the review team identified the cost of the direct and indirect benefits and allocated them to each department.

The base data for the analysis was Block 17, "State wages, tips, etc.," of the 1994 W-2 form. This total includes salary, longevity, overtime, retirement settlements and annual payments for unused sick leave. While the time period of the W-2 does not match the fiscal year of the Borough, this data is generally recognized to be the most accurate summary of wages paid to an employee. The total cost of "direct benefits" for current employees, which are those items requiring a payment by the Borough during the year such as insurance premiums, pension costs, and social security/Medicare, where applicable, totaled approximately \$364,049 or 25% of the wages paid. An additional \$97,541 was paid for the cost of direct benefits for employees who are retired or resigned during the year. When the \$461,590 expense of indirect benefits is added, the cost of all benefits is approximately 42% of the wages paid.

This total does not include the cost of the workers compensation benefit, which is generally figured to be valued at 4% to 7% of an employee's total compensation. This would raise the value of the benefit package to at least 46%.

Policies Regarding The Provision of Benefits. Overall, the cost of direct and indirect benefits in Keansburg is 12% to 17% higher than statewide norms; and is among the highest of the municipalities participating in the local government budget review process. The underlying causes are: lucrative insurance benefits described in a previous section of the report; providing comprehensive benefits to part time employees and officials, which was also addressed in a previous section of the report; and unusual vacation and sick leave provisions.

**Unused Sick Leave Payments.** Borough policies permit employees to be paid for a portion of their accrued sick leave every year. In effect an employee can elect to be paid an additional two weeks of salary per year. There is no limit on the amount an employee can be paid through this program during their career. Employees are also paid for a portion of their unused sick leave upon retirement.

During the last year the Borough wrote checks totaling approximately \$52,970 to buy back unused sick leave from current employees. This total does not include any payments made to employees retiring from the Borough. The Borough also paid its share of the Medicare, social security and pension cost on the sick leave payments as appropriate. The true out of pocket cost to the Borough exceeded \$60,000.

It has been suggested that an annual sick leave buy back program must exist to keep employees from using their sick time. A preferable option would be to discipline any employee who betrays the public trust by abusing the benefit. Accordingly, it is recommended that **(# 17) the annual sick leave buy back program be eliminated**, thereby eliminating a \$55,000 to \$60,000 expense every year. **It is further recommended that (# 18) the maximum sick leave payout upon retirement be capped at \$15,000.**

The Fair Labor Standards Act does not recognize unused sick leave as mandatory compensable work time. Sick leave is traditionally considered to be analogous to a term insurance policy to protect an employee's compensation, particularly in the later years of a career, during an illness. Nevertheless it is common in New Jersey to recognize and reward career employees for their dedicated service through a reasonable payment for unused sick leave. By capping the total possible payout at \$15,000, the same as the State policy, the Borough can properly identify and plan for this financial liability.

**Vacation Accrual Rates.** Unlike decisions regarding payment for unused sick leave, the Fair Labor Standards Act generally states that vacation is compensable work time. The primary local decisions are the amount of vacation time that may be accrued, the amount of vacation that may carry over from year to year and when payments for unused vacation will be made.

One of the major factors affecting the scheduling of Police Officers and the assignment of police overtime is the generous vacation accrual rate outlined in the collective bargaining agreement. New officers in the department accrue twenty work days of vacation per year while senior officers accrue between 35 and 55 work days per year. Overall 765 vacation days are accrued by the thirty officers of the Department every year. Based on the existing agreement, this total will increase every year. At present, the Department must be prepared to cover 6,120 work hours through assignment of overtime, scheduling modifications or operating with reduced staffing. This is roughly equivalent to three full-time positions.

If the vacation accrual rate of the Borough employees was applied to the police, the annual accrual drops to earn 501 vacation days per year. Based on the officers' rates of pay and longevity, these 264 additional days cost the Borough \$52,110 per year. **It is recommended (# 19) the Borough actively pursue the following:**

**A. Reduce the number of vacation days earned each year.** It would be beneficial to the entire employee group and to the taxpayers to have a uniform vacation accrual schedule applicable to all full time employees. As suggested above, this would save the Borough approximately \$52,000 based on the existing rates of pay and the current accrual rates.

**B. When payment is made for unused vacation, ensure the oldest vacation days are purchased at the rate of pay in effect at the time the vacation was earned.** The value of an old vacation day should not increase as a result of a wage increase in a subsequent year.

The current value or liability for police vacation days not taken is approximately \$310,000 or 82% of the Borough's total liability of approximately \$380,000. In the section titled "Proposed Regulatory and Statutory Changes," we recommend that municipalities be permitted to establish and fund a reserve for accrued liabilities. If 10% of this liability was funded at one time, the Borough would have to allocate approximately \$38,000.

#### Comparison of Employee Compensation and the Work Week

Overall, the total compensation package provided to employees of the Borough of Keansburg is comparable to or better than the compensation packages provided in most of the municipalities in the area. When the fact that Borough Hall employees work a thirty hour week is considered, the compensation package is exceptional when compared to other agencies. Given the disparity in the number of hours worked among the Borough's own employee groups and given that the rates of compensation are equal to or above the marketplace it is **recommended (# 20) that the governing body adopt a resolution supporting a 35 to 40 hour workweek.** This would yield a minimum of sixty additional work hours per week or 3,120 hours per year in the Borough Hall. This is equivalent to nearly two full time positions.

While it may be necessary to defer implementation of this policy until the end of the current collective bargaining agreement, it would be appropriate for the Council to establish its position on the matter immediately by adopting a policy resolution.

#### Allocation of Personnel

Regardless of the proposed change in the work week, Keansburg has an opportunity to generate significant savings through structural changes in its table of organization and reallocation of its personnel. Accordingly, **it is recommended (# 21) the following changes be made in the structure and organization of the staff:**

**A. Reduce the staffing in the tax collection office by one full-time clerical position.** The current allocation of personnel in the tax office is two full time clerks, a contracted tax consultant and a deputy or assistant collector, who also serves as the municipal clerk and a part time collector. Upon the retirement of the current collector the



deputy will assume all of the duties and responsibilities of the position. Excluding the consultant and the retiring part time collector, the Borough maintains the full time equivalent (FTE) staff of approximately 2.5 positions in the tax office. Keansburg maintains approximately 3,300 tax accounts or 1,320 accounts per position. In the Bayshore region the only other municipality having 2.5 FTEs has approximately 7,000 accounts or a ratio of 2,800 accounts per position. In other communities studied by the local government budget review teams the ratio of tax lines to staff averages approximately 4,000:1; however, this average is affected by the larger communities where economies of scale are much greater. Nevertheless, it is reasonable to project that 1.5 FTEs can effectively manage and maintain 3,300 tax accounts especially if the work week is expanded. During peak periods of activity additional clerical support can be temporarily assigned from the other offices within the Borough Hall. The reduction in salary and benefit expenses would be at least \$25,000 per year.

**B. Reduce the staffing in the Office of the Municipal Clerk by one full-time position.** In addition to the position of Municipal Clerk, there are two full time clerical positions in the Office of the Municipal Clerk. Part of the duties and responsibilities currently housed in the Office of the Municipal Clerk is the management of the employee insurance programs. It is **recommended that (# 22) these duties be transferred to the Office of the Manager and consolidated with the payroll function.**

In the Bayshore region no other office of the clerk has more than two positions, even in the agencies where other municipal duties and functions have been consolidated. With the possible exception of the licensing duties, the workload and assignments of the municipal clerk vary relatively little between the Bayshore communities. Recommendations are presented elsewhere in this report to simplify and streamline the licensing process in Keansburg. As such, it is reasonable to project that the Office of the Municipal Clerk can function effectively with one full time clerical position and the half time position of Municipal Clerk particularly if the administration of employee insurance plans is consolidated with the payroll function. This will insure the Municipal Clerk continues to have a full time assistant or deputy to address any matters that arise during vacation periods or when the Clerk is attending to the duties and responsibilities associated with the position of Tax Collector. The annual reduction in salary and benefit costs would be approximately \$25,000 per year.

**C. Reduce the staffing in the Office of the Municipal Court by one full time position.** In addition to the statutorily required positions of municipal court judge, prosecutor and court administrator there are three full time clerical positions assigned to the Office of the Court. Based upon data provided locally and by the NJ Administrative Office of the Courts, during 1993-1994 the Keansburg court processed approximately 10,873 new events or "cases;" 8,514 of these were traffic related including 4,784 parking citations. Less than 4% of the events or cases were for indictable offenses.

A preponderance of the workload in the office of the courts are matters that are normally disposed of routinely through processing or event management procedures established by

the state and used in most municipal court offices. In addition, Keansburg maintains an extensive list of “pre-approved” fines and fees if an offender wishes to resolve their ticket without going to court.

Based on an annual volume of 10,800 tickets or cases, the court receives an average of 207 new cases each week. Using workload and productivity estimates developed by the Administrative Office of the Courts, this equates to less than one full day of data processing for one position. Given the small staff, it is unlikely the court administrator has the luxury of assigning one person to data entry exclusively. But at the same time, there does not appear to be the need for three full-time clerical positions. The annual saving resulting from the elimination of one clerical position would be approximately \$20,000 per year.

**D. Actively pursue consolidation of the dispatching function with neighboring communities.** The total number of police officers and the total square area in the Bayshore region is smaller than many townships in New Jersey and many wards in the major urban centers of the state. There are several success stories in New Jersey where dispatching duties and responsibilities are shared without a loss in response time or a reduction in services provided to the public. Some of these are located in Monmouth County. In addition, Keansburg is part of cooperative law enforcement efforts in areas such as the highly successful Bayshore Narcotics Task Force. This clearly indicates the adjacent law enforcement agencies have been able to successfully resolve difficult matters such command and control or consolidated budgeting. If Keansburg was able to consolidate its dispatch function with at least one other community it is reasonable to project that the annual cost of salaries and wages could be reduced by at least 50% or approximately \$45,000 per year.

**E. Modify the organization and staffing of the Finance Office.** Keansburg has maintained a contractual arrangement with a certified municipal finance officer for several years. This contract cost the Borough approximately \$27,000 during the last fiscal year. The contractor serves as a consultant to the manager and performs many of the statutorily required fiscal management functions. The day-to-day operations and decisions remain the responsibility of the Municipal Manager. A significant recommendation in the report submitted to the Keansburg Municipal Utility Authority, which is more fully addressed in another section of this report, is to eliminate the authority as a separate governmental entity. If this were to occur, the savings in salaries from the KMUA would permit the Borough to retain a full time Finance Officer/Director of Utility Administration at no additional expense to the taxpayer. A full time finance officer would give Keansburg the opportunity to quickly address many of the recommendations outlined in this report and to significantly improve the accounting and purchasing functions.

The only other Bayshore community administering water and sewer utility funds as part of the municipal structure has a full-time finance officer. It would be appropriate for Keansburg to pursue this option as soon as the decision is made to move the KMUA into the Borough government. When a full-time finance officer is retained there will no longer

be the need for two additional full time positions in the Finance Office. Accordingly, one clerical position could be eliminated, thereby creating an annual savings of approximately \$35,000.

**POTENTIAL FISCAL IMPACT**

Eliminate Sick Leave buy back	60,000
Reduce Police vacation	52,000
Fund Accrued Liability	<38,000>
Implement staffing adjustments	
Office of the Tax Collector	25,000
Office of the Municipal Clerk	25,000
Municipal Court	20,000
Police Dispatching	45,000
Finance Office	<u>35,000</u>
<b>TOTAL</b>	<b>\$224,000</b>

## **TAX COLLECTIONS, FORECLOSURES and the TAX BASE**

The Borough has made significant progress in the area(s) of tax collections and foreclosures. The data provided below summarize the magnitude of the problem and its impact on the community. The recommendations are intended to support and reinforce the corrective measures being taken on behalf of the community.

### Current Year Tax Collections

In 1989 the tax collection rate in the Borough of Keansburg was approximately 88%. This was the lowest collection rate in the Bayshore region and one of the lowest in the State of New Jersey. Regardless of what is actually collected from the taxpayers, the Borough must pay 100% of the tax revenue due to the school district and the County. As a result, the Borough must adjust the municipal tax rate upward to insure enough money is collected from the responsible, timely taxpayers to pay the other agencies and operate the town. In effect the responsible taxpayers who pay their bill on time must pay more to offset the negative impact of the non-paying property owners

This adjustment in the tax rate produces the "Reserve for Uncollected Taxes." It also appears that the Borough's collection rate on delinquent taxes has been weak. A recommendation provided in an earlier section of the report highlights the value of minimizing the gap between the actual tax collection rate and the projected collection rate to be used in developing revenue estimates for the upcoming year.

The reserve requirement resulting from the Borough's 1989 tax collection rate was \$796,378. The collection rate for the 1993-1994 fiscal year was essentially unchanged from 1989. As a result of increases in tax rates and continuing poor collection rates, the reserve requirement had exploded to \$1,419,312 by 1994. Based on recent property valuations the resulting tax burden is roughly equivalent to 41.7 cents per \$100 valuation (\$1,419,312/34,000).

Just as a weak collection rate tends to drive the reserve requirement upward, improving the collection rate can drive the reserve requirement downward. The requirement to maintain a high reserve for uncollected taxes will continue until after the tax collection rate has improved significantly. There is no reason to believe the collection rate cannot be raised four to six points. Excluding Keansburg, the tax collection rate in the Bayshore averages approximately 95%. Two of the Bayshore communities, including neighboring Hazlet, maintain a collection rate in excess of 97%.

Accordingly, **it is recommended (# 23) the Borough aggressively pursue all of the following:**

**A. Identify all accounts that are delinquent after the first tax payment date and contact the taxpayer by telephone and letter to encourage them to bring their account up to date.** Identifying and addressing the problem as early as possible would be

in the best interest of the taxpayers and the Borough. Given the importance of improving the collection rate, it would be beneficial if members of the governing body actively supported this effort by making some of the phone calls and even visiting with the owners of the largest delinquent accounts with a member of the staff. While the staff are clearly capable of performing this task, the presence of an elected official may reinforce the importance of addressing the issue. It is also an outstanding constituent service on behalf of the vast majority of taxpayers who pay their bill on time.

**B. Insure the maximum penalties and interest rates have been authorized by ordinance.** This includes an 18% per annum interest rates on all accounts of \$1,500 or more as well as a 6% additional penalty on all accounts delinquent by more than \$10,000.

**C. (Continue to) attach rents on all eligible properties.** Landlords who fail to provide prompt payment of taxes stand to lose rental income through the attachment of accounts until taxes, interest and penalties have been paid.

**D. Revoke licenses held by individuals or businesses that are not current on their tax accounts.**

As previously stated, it is clear the Manager and staff have identified this problem and have begun to aggressively address it. They deserve all the support and assistance they can get. Aside from reducing the pressure on the reserve requirement, if the collection rate was raised to the Bayshore average of 95%, an additional \$238,000 would be collected on a timely basis. This has the additional benefit of drastically reducing the workload for collection of delinquent taxes.

#### The Collection of Delinquent Taxes

Eliminating the backlog of unpaid delinquent taxes is an extremely important, and often ignored fiscal responsibility. With one exception the collection of delinquent taxes has been a major problem in the communities visited by the local government budget review teams.

Delinquent tax collection rates are not measured with the same degree of importance or fervor as the current year tax collection rate. While an analysis of delinquent taxes appears in every audit, it is rare to find a delinquent tax collection rate. The "Schedule of Delinquent Taxes and Tax Title Liens" which is prepared as part of the Annual Financial Statement provides the most readily available measure. Line 16, "Percentage of Cash Collections to Adjusted Amount Outstanding" was 63.48% for the year ending June 30, 1992; 59.27% for the year June 30, 1993; and, 69.16% for the year ending June 30, 1994.

To improve the collection rate on delinquent taxes **it is recommended (# 24) that the following procedures and policies be pursued:**

**A Conduct the annual tax lien sale on the earliest possible date** after aggressively advertising the sale to attract qualified investors and bidders. This is the best possible solution for a municipality. The sale of a tax lien effectively transfers the responsibility of collection to the party buying the tax lien. In order to obtain the tax lien the bidder must pay all of the delinquent taxes to the municipality.

**B. Initiate the foreclosure process at the earliest possible date**, normally 18 months after an account has lapsed into a delinquent status and **aggressively pursue the foreclosure process on all eligible accounts**. While this may not be a popular action, it must be done to resolve the delinquencies and reduce the tax burden on the vast majority who pay their taxes on time.

**C. As the foreclosure is occurring, develop and implement a plan to restore foreclosed property to the tax roll.** The problem of delinquent taxes resulting in a foreclosure is not truly resolved until the property is restored to the tax rolls with a new, responsible owner.

**D. Actively publicize the fact that foreclosures are occurring and will occur.** From the delinquent taxpayers point of view, there is probably no better motivation to resolving the problem than the news that foreclosures are occurring

At the time of the local budget review, sixty properties had been identified as being eligible for foreclosure. Action had not yet been started on 21 properties having an estimated value of \$1,746,400 and delinquent taxes totaling \$174,123 (as of 6/30/93). Final judgments had been received on four properties having a total assessed value of approximately \$902,300 and the foreclosure process had been started on another 28 properties having a total estimated value of \$2,183,800. Seven other properties were eligible for the municipal foreclosure however, bankruptcy petitions had been filed or other unusual problem existed. Overall, the value of the property eligible for foreclosure was approximately \$5,234,200. The delinquent taxes on these properties as of June 30, 1993 was approximately \$573,685. In all probability, the taxes due as of June 30, 1994 can be added to this total.

The costs associated with completing the foreclosure process can often be recovered at the time the property is sold at auction. Even if this does not occur, the sale of the property will often help restore a portion of the tax base. In the long term it is unequivocally to the advantage of the community to pursue foreclosures.

Therefore, it is also **recommended (# 25) that a special budget allocation be made to ensure adequate funding for the legal work necessary to complete the foreclosures in process and accelerate the work on the remaining eligible properties.**

## Additional Improvements to the Tax Base

**Public Facilities Plan.** In the Borough of Keansburg there is approximately \$35 million in assessed valuation that is tax exempt. This is an unusually large amount of tax exempt property given the size of the community. Some of this is due to non-profit corporations having obtained a tax exempt status, while much of it is publicly owned property. The most recent major addition to the inventory of public property has been the gift of a former bank property to the municipality. The bank property, the borough hall location, and the site of the old sewage treatment plant are potentially prime locations for (re)development that could be added to the tax base of the community. The borough hall is in deplorable condition; the capacity and use of the bank site is a subject of considerable debate; and the remaining portion of the sewage plant structure needs to be demolished. Given its responsibility to develop and implement the Master Plan of the community, **it is recommended (# 26) special attention be given to the relocation and possible consolidation of public offices and facilities** so more land is available for taxable development.

**Demolition of Unsafe and Vacant Structures.** Just as the Borough staff has begun to address the complex issues of tax collections and foreclosures, the Borough has also begun the process of eliminating the substandard and non-compliant buildings in the community. The single largest deterrent to the process is the availability of funds for demolition projects. The code enforcement staff has already identified a list of properties that should be demolished. It is strongly **recommended (# 27) the governing body aggressively pursue the elimination of detrimental properties through allocation of funds for the bidding, demolition and proper disposal of the resulting debris.** Just as foreclosures generate an expense that may be recovered through the (re)sale of the properties, some of the costs of demolition may be recovered through the assignment of liens on the properties. **It is also recommended that (# 28) the staff pursue special grant funding in support of this effort.** The New Jersey Housing and Mortgage Finance Agency and the Department of Community Affairs have programs to support municipal efforts to support demolition and housing redevelopment. Regardless of the short term cost, the elimination of substandard properties is clearly a long-term benefit for the community. If the average cost of a demolition project was \$5,000 then fifteen substandard properties could be eliminated every year through the allocation of \$75,000 in the annual operating budget.

**Rehabilitation of the Housing Stock.** The Borough has an unusual opportunity to provide for the rehabilitation of a large portion of its housing stock through the “Mt. Laurel” regional contribution agreement with Holmdel Township. To date, at least 120 units have been completed through this program. The number of completed projects has increased each year since 1991 as the procedures for this relatively unique program were developed and implemented. During the interviews conducted as part of the review process, concern was expressed over the pace or productivity of the program. It is **recommended (# 29) consideration be given to adopting the following changes in the (Borough approved) program policies and procedures:**

**A. Eliminate the apparent redundancy in initial inspections,** particularly if the program manager provides certified inspectors who can identify all code violations that must be addressed. Under the existing arrangement, employees or subcontractors of the program manager conduct an initial inspection and a member of the Borough's code staff also does an initial inspection.

**B. Eliminate the apparent redundancy in project review(s) by the governing body.** After the cost estimate for the renovation of a site has been prepared it is presented to the Council. Upon approval of the cost estimate the project is then publicly bid. Approval of the bid and awarding of the contract must also be reviewed by the governing body. As long as the Manager or Finance Officer certifies that funds are available in the "RCA" fund, the projects could be bid prior to Council review and approval. The final decision to award the bid and proceed must rest with the Council, however they do not need to be involved in the initial review.

**C. Eliminate or modify the regulation(s) limiting the number of renovation projects a contractor may undertake at one time.** Even if a contractor is the low bidder on more than one site, the current regulations do not permit a contractor to accept more than one job at a time. If the underlying reason for this limitation is the time required to complete the work, the estimated time to complete a job must be included and considered as projects are bid and awarded. This restriction may serve to limit the list of active bidders since it may not be profitable for some construction firms to mobilize for the purpose of doing one small job.

**D. Schedule quarterly or semi-annual meetings with the program manager to review the progress being made in the program.** There are several components to the renovation process that are not necessarily visible, such as the initial inspections, preparation of bid specs and the bid process itself. There appear to be a wide variety of expectations related to the program.

**E. At the last program review meeting each year, establish performance benchmarks in conjunction with the program manager** for the following year such as the number of projects in which the initial inspections are completed and/or the number of projects bid in a quarter.

Once a home has been rehabilitated, it has been customary for the Borough to provide a five year tax abatement on the improvements. This custom denies the rest of the community any benefit from the housing rehabilitation program, such as the increased assessments on the property. **It is recommended (# 30) consideration be given to modifying the current abatement procedures to adjust the assessment in five annual steps** rather than all at once at the end of the abatement period or immediately upon completion of the work. This would ease the impact on the homeowner and provide some benefits to the rest of the community through an improvement in the overall tax base.

#### **MUNICIPAL OPERATIONS**



Outlined below are a series of recommendations pertaining to municipal services not otherwise addressed in previous sections of this report.

**First Aid Services.** The existence of volunteer fire fighting and rescue units in Keansburg and in most New Jersey communities, has been “an integral and necessary part of the New Jersey Local Government. Without such organizations public safety would be threatened and in many cases the cost of providing services - and local tax rates - would rise geometrically” (New Jersey Practice, Volume 34, p. 265). There is little debate regarding the value of an effective group of emergency response volunteers, yet at the same time the need to properly control costs, insure effective use of the public's tax dollar and provide an acceptable level of service is of equal importance.

The potential or frequency for conflict between a volunteer service and a governing body appears to be occurring on a more frequent basis throughout New Jersey, although it is not a new phenomenon as indicated by the following quote from 19\_\_\_\_.

The other side of the coin, however, is that these organizations are private corporations whose members feel they should not be ‘interfered with’ by ‘politicians.’ That is to say, they wish to have minimal control by elected officials or appointees of the governing body. In addition, these organizations often enjoy proud traditions which in some cases are centuries old. As a result, {in} many municipalities . . . there is often serious friction between the municipal government and these ‘private-public’ corporations. This conflict is often manifested in terms of: (1) Financial support and the private company’s desire for privacy of its finances; {and} (2) General issues of control . . . almost nothing cuts as deeply to the very existence of the municipality as the possibility of a conflict between the governing body and firefighting or rescue forces. (New Jersey Practice, Volume 35, p. 265)

An additional catalyst to the conflict between a municipality and its rescue squad are the requirements a volunteer must meet to become a member of an emergency rescue squad. This makes it exceptionally difficult to recruit and retain members. On the one hand the rescue squad wants to uphold and maintain its proud tradition of service while on the other hand the governing body must be cognizant of its obligation to provide an acceptable level of service.

The quotes offered above were published long before the recent discussions and debates regarding appropriate role, responsibility and funding level for the Keansburg Rescue Squad began. It is unlikely the issues in Keansburg will be permanently resolved until the structure and organization of the service delivery system itself is modified. Debates about specific funding levels in any particular budget year beg the question of how can the residents of Keansburg best be served. To that end the local budget review team offers the following recommendations (# 31):

**A. Establish minimum levels of emergency response service to be used as measurements or benchmarks** when evaluating funding requests or contract proposals;

**B. Actively explore different service delivery options and implement one that ensures a continued role for the Keansburg Rescue Squad during the time periods when the volunteer corps is readily available** to respond to calls for service. Given the current number of active volunteers it may be unreasonable to expect them to provide twenty four hours service every day of the year.

**C. Pursue service delivery alternatives for those periods of time when local volunteers are not available.** These alternatives could include:

1. Inter-local service agreements with neighboring communities; or
2. Contracts for service with private vendors.

**D. Develop and implement procedures to generate maximum cost recovery for the service provider(s).** Given the statutory ceiling for the funding of rescue squads, it would be advisable to implement billing systems for services rendered. It is unreasonable to expect a municipality to cover all of the operating and capital costs of a rescue squad and it is equally unreasonable to expect volunteers to cover these costs through solicitation of grants and donations.

**E. Delay capital expenditures for new ambulances equipment or facilities until the organizational and funding issues outlined above are resolved.** The level of service and the hours of services to be provided by the volunteer squad will have an impact on the amount and type of equipment that is needed.

Unlike other recommendations, no ‘potential fiscal impact’ is presented. Implementation of the recommendations is intended to generate improvement in the value of the public expenditure for first aid services.

**Public Health Services.** The Borough of Keansburg has been part of the Matawan Regional Health Authority since 1990. The SFY 1994 audit listed the Borough’s total health expenditure as \$91,937 of which \$15,500 was for “dog regulation” while \$67,887 was for “other expenses,” i.e. the payment to the regional authority for services rendered. The balance was for part-time clerical support to the Board of Health. The FY 1994 per capita expenditure was approximately \$8.33. The 1995-1996 contract expense with the regional health authority is projected to be \$75,552.

The major components of the health expense are enforcement of “core” local health standards, enforcement of the “County Environmental Health Act,” limited animal control work, and the delivery of nursing and/or limited medical services through a subcontract with the Visiting Nurses Association (formerly MCOSS.) The subcontract for nursing

services generated approximately \$23,000 of the total amount paid to the regional authority.

Each month the regional authority provides a report of activity to Keansburg detailing the number of inspections or incidents in 18 different categories. Ten of the categories address standard local health activities such as restaurant inspections, housing inspections (for health purposes), insect & rodents issues, etc. The remaining eight categories are related to the tasks and responsibilities outlined in the County Environmental Health Act. These include matters pertaining to air pollution, noise control, surface water, etc. Twenty two percent of the activity cited in the monthly reports for 1994 was for matters related to enforcement of the County Environmental Health Act.

The communities participating in the regional authority do not pay the County health tax because the county does not provide these services in Keansburg. **It is recommended (# 32) that a detailed comparison be made on a regular basis to determine whether it is cost effective to continue the existing arrangement of contracting with the regional authority** or whether it would be better to delete the annual health appropriation from the local budget in exchange for re-establishing the county health tax in Keansburg.

The largest portion of the contracted expense, approximately \$23,000, is for services provided by the Visiting Nurses Association (VNA). During the nine month period from January 1, 1994 through September 30, 1994 the VNA conducted 12,424 visits to a total of 1,072 residents or approximately 10% of the local population. 94% of these visits were for home health care while it appears 85% of the visits were to citizens eligible for Medicare or Medicaid. 77.5% of the visits were to citizens age 55 and over or children under age 5. The extent to which these services are necessary is not questioned. The extent to which the cost for these services is an appropriate municipal expense and therefore an appropriate responsibility of the municipal taxpayer must be questioned. To that end **it is recommended (# 33) that the Borough, in conjunction with the regional health authority, ascertain:**

**A. The extent to which the VNA or the regional authority are reimbursed through Medicare, Medicaid or other forms of insurance;**

**B. The extent to which Keansburg's expense is adjusted in recognition of the insurance payments received;**

**C. Alternatives to providing these services at the expense of the local taxpayer;**

**D. Alternative contractors to ensure continued competitive pricing** in a industry or market known for its price volatility.

If it were possible to reduce the municipal tax burden by 25% of the cost of the VNA contract, the annual savings would be approximately \$5,750.

## INTER-AGENCY RELATIONSHIPS

### Opportunities for Municipal-School Cooperation

During the course of the municipal, utility authority and school district reviews, the insurance programs were compared. Each agency maintains its own set of employee benefit insurance plans. The health and dental plans for the municipal government and the utility authority plan appear to be similar yet the premiums were different, possibly due to the size of the insurance group. The Utility Authority's family health insurance plan was approximately \$850 more expensive than the Borough's plan. Family health coverage provided by the school district costs approximately \$7,800 per year or \$2,800 more than the family health coverage provided to a Borough employee. The school district provides insurance to approximately 160 employees or appointees. Had their premium been similar to those paid by the Borough, the savings would have been approximately \$300,000.

No effort was made to identify the differences in the coverage or deductibles. Nevertheless the fact remains that three agencies in the same community are maintaining three separate insurance programs having considerably different premiums. **It is recommended (# 34) that a unified insurance program be developed covering all of the public employees working for the agencies in the community.** While it appears the largest savings would occur within the budget of the school district, the size of the group may be sufficient to generate considerable competition thereby generating a savings for the municipality also. The ultimate beneficiary of the reduction in overhead and the competitive pricing of insurance benefits are the taxpayers.

It would also be reasonable for the municipality and the school district to establish a consolidated payroll office and payroll services contract as well as a consolidated vehicle and building maintenance programs. Accordingly, **it is recommended (# 35) the Manager and School Superintendent be directed to propose a plan of cooperative services and the requisite inter-local agreements for review by the Council and the School Board respectively.** The economies of scale should yield additional savings for both agencies. The differences in items as varied as payroll calendars, contract provisions, pensions funds and even vehicle use patterns are certainly no greater than that found in moderately sized cities.

### Consolidation of the Utility Authority

In its review of the Keansburg Municipal Utilities Authority the review team recommends **the governing body of the Borough of Keansburg and the commissioners of the Keansburg Municipal Utilities Authority work jointly to dissolve the Keansburg Municipal Utilities Authority.** Seven major advantages are identified and discussed to include improvements in the decision making process, improved staffing, and elimination of the redundant overhead costs. We believe that this change would provide the opportunity for stability in both utility rates and property taxes.

The issues and concerns related to the existing debt of the utility authority and debt ratio of the municipality were considered by the staff of the Treasury Department. Because of the covenants and insurance provisions of the utility authority bond issue, it appears the obligation can be directly transferred to the municipality without the (re)issuance of a new refunding debt; however, given current market conditions it may be advantageous to consider consolidating and refinancing of the municipality's debt.

Given that the utility debt is backed by operating revenues paid by the users of the utility system, the adjusted impact on the municipal debt ratio would be negligible. If this were to become an issue, it is reasonable to project that the Division of the Local Government Services would favorably endorse a petition to the Local Finance Board seeking to adjust the authorized debt ratio in the interest of reducing the overall burden on the rate payers and the taxpayers of Keansburg.

## PROPOSED REGULATORY AND STATUTORY CHANGES

A major component of the mission of the local government budget review staff is to identify and recommend changes in state statutes, regulations or procedures that will enhance the opportunity for local governments to reduce their expenditures or improve the value of services provided to the local taxpayers.

As a result of the Keansburg review, three new recommendations are presented below. A fourth recommendation, originally presented to the Keansburg Municipal Utilities Authority, is (re)stated because of its potential impact on both agencies.

### 1. Authorize The Funding of Accrued Liabilities

The accrued liability for unused vacation time was outlined in an earlier section of the report. The rate at which this liability increases or decreases each year will be determined by the changes in the pay scale and the amount of vacation actually taken or accrued by the employees. Nevertheless, when an employee retires this liability immediately becomes a payable expense. It would be advisable to prepare for this expense by setting aside money in a “reserve for accrued liabilities.” Accordingly, **it is recommended the existing accounting and budget procedures be amended to permit agencies, upon written approval by the Director of the Division of Local Government Services, to establish a reserve for accrued liabilities.**

The extent to which the liability should be funded presumably would be a local recommendation and/or a matter for review by the Division of Local Government Services. It is possible to make reasonably accurate projections of the actual expense that will occur over a five-year period and establish funding benchmarks as a result of these projections.

### 2. Revise Eligibility Standards for Unemployment Insurance

If the premise that unemployment insurance is intended to be a financial bridge for those who unexpectedly lose their jobs, then individuals who work in a municipal seasonal position which is guaranteed for the next season should not be entitled to collect this benefit. The public employees who hold twelve month positions in a local government and the taxpayers should not be burdened with having to cover the cost of unemployment insurance for those who choose to work in seasonal positions. Accordingly, **it is recommended that the necessary statutory or regulatory changes be reviewed to refine the standards for eligibility of unemployment insurance to specifically exclude seasonal employees who have a promise of an opportunity to return to work for the next season or work period.**

### **3. Permit Consolidation of Planning and Zoning Boards**

Municipalities with a population under 10,000 are now permitted to consolidate the planing and zoning board functions. In many of the communities in the state, including Keansburg, there is very little land available for development. The vast majority of the work that will occur is redevelopment and/or renovation work. As such, the need for two separate boards replete with staff and counsel is questionable. In Keansburg, the municipal staff could not recall a year when the workload was such that the planning board and the zoning board had to meet every month. It is recommended the existing legislation permitting the consolidation of Planning and Zoning Board be amended to eliminate any threshold linked solely to population. In addition to eliminating the limitation based on population, consideration should be given to adding an alternative criteria based on the percent of developed land.

### **4. Provide financial and technical assistance for the consolidation of agencies.**

Recommendations contained in the report submitted to the commissioners of the Keansburg Municipal Utility Authority and in this report call for the consolidation of the utility function with the municipal government. In the long run there can be little doubt this will be cost effective for the taxpayers and the rate payers. It would also give the municipal governing body the opportunity to make several improvements in financial management, budgeting and banking at little or no additional cost. However, it is reasonable to project that there will be a number of issues and some nonrecurring expenses that have to be addressed to insure a smooth and successful consolidation. For some issues it may be beneficial to have the assistance of a disinterested third party. Accordingly, **it is recommended the State make assistance available for the consolidation of local agencies.**

## **LOCAL GOVERNMENT BUDGET REVIEW**

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